



ASX & MEDIA RELEASE

(ASX: SGM)

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## **Annual General Meeting 2014 Chairman's Address**

Ladies and Gentlemen,

### **Introduction**

This time last year I was introducing a new CEO, Galdino Claro, and describing the challenges the board, and our 6000 employees, were facing throughout the Company and the industry. One year on and we have a new management structure and a number of new faces in the leadership team. Despite the continued challenging market conditions, we can report that there is evidence that our strategic initiatives are starting to improve your Company's performance.

If there was a word that summed up the mindset we had last year it was determination. This year the word would be optimism. Let me explain why.

### **Five year strategic plan**

Our restructured management team has brought fresh perspectives to the Company. Galdino and his team have moved quickly to establish a clear strategic framework for the Company. In July this year, Galdino and a number of members of the Executive Leadership Team presented the Company's five year strategic plan. Based on a three step model of Streamline, Optimise, and Grow, the strategic plan is a roadmap to increase underlying Company earnings before interest and tax (EBIT) by more than 350% over FY13.

Importantly, this strategy is based only on factors within the control of management, and does not rely on improving external conditions or acquisitions. This is in line with the Board's view that, even at the bottom of the economic cycle, it is critical that the Company achieve a return equal to its cost of capital. Of course, we also want to capture the benefits of any improvement in the macroeconomic environment.

### **Cultural change**

Internally, the culture of the Company is changing. No longer can the business exist as a material handler captive to commodity flows and business cycles. Rather, it is evolving into a modern customer centric, supply chain manager with constant attention to margin enhancement. As a provider of recycling solutions, Sims Metal Management has extraordinary potential. The Company has unrivalled global reach, with operations on five continents, trading relationships with customers across 68 countries, and an extraordinary depth of industry experience. All of these attributes will be harnessed as we change the culture of the Company, the hallmarks of which will be mutual accountability and industry leadership.

One aspect of our culture which will not change is our commitment to safety. Safety is fundamental to all aspects of our strategy and we remain committed to achieving our objective of being a zero harm workplace. Encouragingly we have made further strides towards this goal during FY14, with meaningful reductions in lost time injury rates realised over the course of the year. Galdino will talk more about our safety imperative and recent developments in this area.

### **Financial results**

In FY14, underlying EBIT of \$119 million increased 77% over the prior year result of \$67 million. Underlying net profit after tax (NPAT) of \$69 million was three times higher than the prior year. External market conditions remained difficult and continue to impede the business's recovery. Cyclically low levels of secondary metal generation, intense competition, and severe winter weather conditions in North America posed challenges to the Company's operations.

After recognising \$158 million of significant items, including \$100 million in costs relating to restructuring activities in the UK and North America and \$23 million in goodwill impairments in relation to SRS in North America, the Company reported a statutory net loss after tax of \$89 million.

While improved results are always welcome, our strategic intent is to drive materially higher returns through the many initiatives and projects that collectively make up our strategy. Galdino will describe a few of these projects and the initial results.

### **Capital management and dividend**

During FY14, capital expenditures totalled \$64 million, which was down from \$149 million in the prior year. Lower capital expenditures reflected the completion of several major projects, including the New England expansion of our metals recycling business, and Brooklyn based dedicated facilities for our New York City Municipal Recycling contract. Disciplined capital management and robust cash flow from operations allowed the Company to reduce net debt by \$196 million in FY14 to a net cash position of \$42 million at 30 June 2014.

We expect capital expenditure will, however, increase as new projects are initiated in line with our strategic plan. These include the construction of our newest shredder in Kwinana, Western Australia. The Kwinana development is the most significant new project in the Company's portfolio and reflects our continued commitment to this important market.

Notwithstanding these initiatives, protecting the Company's strong balance sheet position remains a key priority of the Board.

The Board determined to pay a final dividend for FY14 of 10 cents per share, which was fully franked. Pleasingly, the final dividend represents the Company's first payout since the end of FY12. The decision to resume dividend distributions reflects several factors, including the Company's supportive net cash position and improved underlying NPAT return. The Company's dividend policy to distribute 45% to 55% of NPAT, subject to the discretion of the Board, remains unchanged.

### **Board renewal**

The Board is committed to renewal within its membership in order to retain independence and to promote the increasingly diverse set of skills required around our board table. At the conclusion of this year's Annual General Meeting, Gerry Morris and Norm Bobins will each retire. Both directors made significant contributions to the evolution of the Company following the merger of Sims Group and Metal Management in 2008, with Gerry chairing the Risk, Audit & Compliance Committee, and Norm chairing the Finance & Investment Committee and subsequently the Nomination/ Governance Committee. I wish to record the appreciation to both for their efforts through a very challenging period, and acknowledge the legacy they

leave. I am sure you will join with me in wishing them well as they retire from this Board. Recently, I was delighted to announce the appointment of Deborah O'Toole and Georgia Nelson as directors of the Company effective 1 November 2014. Both Deborah and Georgia are extremely well credentialed and bring to the Board world class experience across a range of industries.

Deborah has extensive executive experience across a number of sectors including over 20 years in the mining industry. She has been Chief Financial Officer in three ASX listed companies. Deborah brings a skillset comprising strategic, financial, commercial and operational expertise, as well as substantial knowledge and understanding of global metals markets, and has also been at the frontline of large business transformations and organisational change.

Georgia has broad experience as a corporate director with particular expertise in large and complex organizations, international and domestic operations, and manufacturing and human resources. In addition, her previous responsibilities have included environmental policy for a global energy company, and she has lectured at Northwestern University in Chicago on global sustainability and environmental policy.

I am sure both Deborah and Georgia will each make a significant contribution to the work of the Board over the coming years.

As they have completed three year terms since first being appointed, Heather Ridout and John DiLacqua are each standing for re-election today. Christopher Renwick is also standing for re-election as well, this time in his own right, rather than as Mitsui's independent nominee. Each of these directors makes significant contributions to the Board and we will discuss their credentials during the formal part of this meeting.

### **Employees**

On behalf of all shareholders and the Board, I wish to acknowledge the efforts of our employees through a period of change and significant uncertainty. Your efforts have ensured that we were able to deal with the challenges that the external environment presented, and emerge a stronger Company. Your excitement as you now execute our five year strategic plan is evident, which further serves to reinforce the confidence the Board has that this plan will deliver significantly improved returns.

At this point, I am pleased to invite Galdino Claro to the podium.



## **Annual General Meeting 2014 Group Chief Executive Officer's Address**

Thank you Mr Chairman,

### **Five Year Strategic Plan**

It was just one year ago that I joined Sims Metal Management, and introduced myself to you at this very meeting. Since then it has been a busy 12 months. I've spent much of that time travelling around our global operations investigating where our greatest strengths exist, what key challenges we face, and where the business has strayed from its core drivers of profitability.

During my strategic review of the Company, I found significant differences in operational profitability and approaches to doing business. I also found a global business built on a long history of acquisitions, but where the full synergies had not yet been fully realised.

More than anything else, however, I found opportunities. Opportunities to build on a solid foundation of successful and sustainable operations run by the best people in the industry; the opportunity to use our scale, our unmatched global trading relationships, and our depth of industry experience, to generate returns superior to our competitors.

Based on these findings, in July 2014 my management team and I presented the details of a five year strategic plan to significantly improve the financial returns of the Company. Once complete, the strategic plan is expected to improve underlying EBIT by more than 350% over FY13, based on internal initiatives alone, and without a reliance on cyclical market recovery or major acquisitions.

### **Streamline, Optimise, and Grow**

The strategic plan is based on three phases; Streamline, Optimise, and Grow. This plan will first *Streamline* the business back to lower cost and higher margin operations, then secondly *Optimise* these businesses based on our core drivers of profitability, and finally *Grow* the total business through reinvestment in the Group's most attractive operations.

These plans are now firmly underway. The actions taken to streamline the business resulted in the decision to exit our underperforming operations in UK SRS and SRS Canada. In addition, we implemented plans to significantly reduce regional and corporate overhead costs by consolidating the North America metals recycling business into three operating regions. These activities are expected to improve EBIT by \$32 million per annum, which we anticipate will be fully realised by FY16.

Our optimisation strategies are focused on maximising the core drivers of profitability, through reducing inefficiencies across the entire value chain, from supplier relationships, logistics, processing, to end product quality and services. To achieve this, we have developed new business information tools and we are improving the sharing of knowledge and skills across our global operations, to make better use of our unparalleled scale and

footprint. We anticipate that optimisation of the business will improve EBIT by a further \$130 million per annum by the end of the five year plan.

Finally, we will also return to growth by reinvesting in our most attractive and highest returning businesses. By strengthening our relationships with key suppliers, combined with the strategic expansion of our feeder yard network, we intend to grow total sales volumes by 10% over the five year plan. As well, in our electronics recycling business we intend to return to growth by expanding our asset management services and leveraging our global footprint with multi-national corporates. We expect these growth initiatives to deliver a further \$40 million per annum in EBIT by the end of the five year plan.

Importantly, any benefit we may receive from broader economic growth will be in addition to these gains.

### **Management team**

There were also a number of changes made amongst my executive leadership team in the past year, as we realigned the business to best deliver our strategic plan. We consolidated our North America Metals business into three operating regions, East, West, and Central. Joe Payesko was appointed as President of the East region and Steve Shinn was appointed President of the West region. Both Joe and Steve each have over 20 years' experience in the industry. Bob Kelman, who was formerly the President of the North America Metals business, was appointed to lead our European Metals business.

Additionally, in September 2014 we announced the appointment of Fred Knechtel as Group CFO. Fred brings over 30 years of financial and business management experience to the Company, including senior-level roles across a number of industries. In his most recent role, Fred played a key role in the transformation of a company into a successful and financially strong organisation. We are very excited to have him join our executive team.

### **FY14 Result and Regional Performance**

The strategic plan remains in the very early stages. However the FY14 results have shown positive initial progress. Underlying EBIT of \$119 million was a \$52 million increase over the previous year. This improvement was driven by projects related to our Optimise phase including better buying practices, improved processing yields, and lower controllable costs. These gains were partially offset by lower sales volumes, which were exacerbated by severe winter weather in North America.

### **North America**

Underlying EBIT in North America declined to \$13 million in FY14 from \$34 million in the prior year. Gains from significant controllable cost reductions and improved sales margins were offset by lower underlying EBIT from North America SRS, and a 13% decline in sales volumes. The decline in sales volumes was principally a result of abnormally difficult winter weather conditions, and the divestment of non-core metals recycling assets.

During FY14 we continued to streamline and develop the North American operations. In July 2013, the Company announced the sale of its US-based Aerospace Metals business, a non-core business focused on specialty metals. Further streamline actions in FY14 included the sale of metal recycling assets in Utah and Birmingham, Alabama as well as the idling of the underperforming Mobile, Alabama-based operations.

Proceeds from these asset sales are being invested in projects anticipated to have higher returns. These include the expansion of our New England metals recycling footprint, with the development of a greenfield yard, shredder and export facility in Rhode Island, which was completed in the first half of FY14. As well, stage one of our NYC Municipal Recycling project, with a state-of-the-art material recovery facility in Brooklyn NY, was also completed during the first half of FY14.

Within the North American SRS business, in June 2014, we announced restructuring initiatives which determined the electronics recycling business of SRS Canada to be outside of the Group's long term strategic interests. Further to the exit from SRS Canada, the operations of smaller US SRS facilities in New Jersey and Texas were consolidated with other sites during FY14.

As well, the operating structure of the North America metals recycling business was consolidated from seven operating regions to three, substantially reducing regional overhead costs. These actions are expected to deliver annual EBIT benefits of \$11 million, with anticipation that 50% of the target will be achieved in FY15 and the full 100% in FY16.

### ***Australasia***

Our Australasia operations continued to be our strongest performing region. Underlying EBIT of \$86 million in FY14 was a 64% increase over the previous year. The improved earnings were due to solid performance from Australia Metals, as well as higher income from Australasia SRS and joint ventures. Both sales margins and sales volumes increased compared to FY13.

Earnings from Australia Metals also benefited positively from refinements made to the business in recent years. These included the acquisition of the Paramount Browns ferrous metal yard in South Australia, a capital upgrade of the St. Mary's yard in New South Wales, and the installation of a downstream non-ferrous extraction facility in Victoria.

We continued to reinvest in businesses across the Australasian region during FY14. Most notably, this included the initiation of development on a new metal shredding facility in Western Australia. The new operation, in Kwinana, will represent the final stage of our shredder replacement program and off-line downstream non-ferrous recovery plant installations in Australia. Upon completion, all operations in Australia will have expanded processing capacity with the most up-to-date metals recovery technology available. Kwinana itself will be the Company's largest operation in Australia, and will replace the current footprint constrained and outdated operations in Spearwood. We currently expect the Kwinana shredder to be operational late in the second half of FY15.

We also experienced further growth in the small, but expanding, SRS business in the emerging markets of South Africa, Dubai and India. These businesses are great examples of the opportunities we are pursuing to use our depth of experience and strong corporate brand to develop higher growth markets.

### ***Europe***

Earnings in the Europe region materially improved to an underlying EBIT of \$20 million in FY14, from a loss of \$19 million in the previous year. The significant turnaround related to stronger performance from Europe Metals and Germany SRS. This was partially offset by lower performance from UK SRS which incurred an underlying EBIT loss.

Stronger underlying EBIT in the Europe Metals business was driven by higher sales margins and substantial benefits from our cost savings program which, at constant currency, reduced underlying controllable costs by \$44 million over the prior year.

In June 2014, we announced restructuring initiatives which determined a substantial portion of UK SRS to be outside the Company's long-term strategic interests. These loss-making businesses worked under extremely competitive conditions where operating advantages could not be gained, or past technology investments could not be successfully commercialised. The Group's Europe Metals operations, fridge recycling and IT asset management solutions were not impacted by the restructuring activities.

During FY15, the initial benefits from these restructuring actions are expected to be realised. While \$20 million in annual EBIT benefits are expected to be gained across the entire Global

SRS business the majority of these gains are associated with the exit from loss making operations in UK SRS. We expect 50% of this benefit to be achieved in FY15 and the full 100% in FY16.

### **Restructuring impairments**

Largely due to actions taken to streamline the business, total significant items were \$158 million after tax in FY14. These included \$100 million in restructuring costs related to the exit from the loss making SRS businesses in the UK and Canada, as well as the exit from several non-core and underperforming metals recycling operations in North America.

In addition, \$23 million in goodwill impairments were recorded in relation to SRS in North America. As difficult to make as these decisions were, we believe the Company is now much better positioned. Our remaining portfolio of businesses is anticipated to achieve higher margins with greater competitive advantages. Additionally, following the restructure of the SRS businesses, we anticipate no significant further restructuring charges.

### **Safety and Sustainability**

As we implement our five year strategic plan, it is critical we do not lose any of our attention to safety and sustainability. The safety of our employees remains our primary focus. FY14 was an encouraging year, with a 25% reduction in lost time incidents, achieving the target we set out for ourselves at the start of the year. In FY15 we will press harder to improve on these gains, as we progress towards our goal of a zero harm workplace. We recently hired Ken Tierney, who is in the audience with us today, as Group Vice President Safety, Health, Sustainability and Community Relations, to lead our efforts in this area.

We also take great pride in the environmental benefits realised through our role in the secondary metals recycling process. The 11.8 million tonnes of material recycled by the Company in FY14 saved 13.5 million Mwh of energy and 12.8 million tonnes of CO<sub>2</sub> by replacing virgin materials. That is equivalent to the energy used by 7.3 million average homes, and mitigated as much carbon equal to planting 12.8 million trees.

As well, during FY14 we reduced our own energy use and CO<sub>2</sub> emissions by 6% and 4% respectively. This was achieved through a number of actions which included the installation of solar arrays on our facilities in Brooklyn and Jersey City, upgrading our mobile equipment to new efficient engines, and installing energy savings lighting and equipment at selected facilities.

### **Strategy and Market Update**

The implementation of our five year strategic plan remains on track, and we see a clear and realistic pathway for further significant EBIT growth. We believe we have announced all material Streamline initiatives of our plan and with the ramp-down of the non-core UK and Canada SRS businesses we are nearing completion. We expect to realise 50% of the total \$32 million of EBIT benefits from streamlining during FY15, with these gains likely to be weighted towards the second half of the fiscal year.

As well, initial results from Optimise initiatives reinforce our view that our strategy targets are realistic. In the first half of FY15, incremental earnings benefits are being realised; most notably within our North America Metals business where these efforts have translated into a meaningful increase in EBIT per tonne margins which impact is further reinforced by modest sequential improvement in intake tonnes.

External trading conditions in our markets have been mixed. Notwithstanding the sequential improvement in supply, YTD intake is still below the prior corresponding period. Sales demand in our end markets however has been volatile, with falling prices for iron ore and non-ferrous commodities leading to lower demand and prices for secondary metals. Despite

these challenges, through prudent inventory management and the diversity of our expansive trading network, we have been able to minimise the potential negative earnings impact.

We are encouraged by our financial results to the end of October despite the challenges of the market. Even though volumes are lower than the previous corresponding period, we currently expect underlying EBIT for the first half of FY15 to be higher than the first half of FY14.

On behalf of myself, and my executive leadership team, I thank you for your valuable support.



**Cautionary Statements Regarding Forward-Looking Information**

This release may contain forward-looking statements, including statements about Sims Metal Management's financial condition, results of operations, earnings outlook and prospects. Forward-looking statements are typically identified by words such as "plan," "believe," "expect," "anticipate," "intend," "outlook," "estimate," "forecast," "project" and other similar words and expressions.

These forward-looking statements involve certain risks and uncertainties. Our ability to predict results or the actual effects of our plans and strategies is subject to inherent uncertainty. Factors that may cause actual results or earnings to differ materially from these forward-looking statements include those discussed and identified in filings we make with the Australian Securities.

Because these forward-looking statements are subject to assumptions and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements. You are cautioned not to place undue reliance on these statements, which speak only as of the date of this release.

All subsequent written and oral forward-looking statements concerning the matters addressed in this release and attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this release. Except to the extent required by applicable law or regulation, we undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this release.

All references to currencies, unless otherwise stated, reflect measures in Australian dollars.

**About Sims Metal Management**

Sims Metal Management is the world's largest listed metal recycler with over 250 facilities and 6,000 employees globally. Sims' core businesses are metal recycling and electronics recycling. Sims Metal Management generates approximately 60% of its revenue from operations in North America. The Company's shares are listed on the Australian Securities Exchange (ASX: SGM). Please visit our website ([www.simsmm.com](http://www.simsmm.com)) for more information on the Company and recent developments.

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